ANALYSIS

Total Oil & Natural Gas Financings Down 78 Per Cent In 2018

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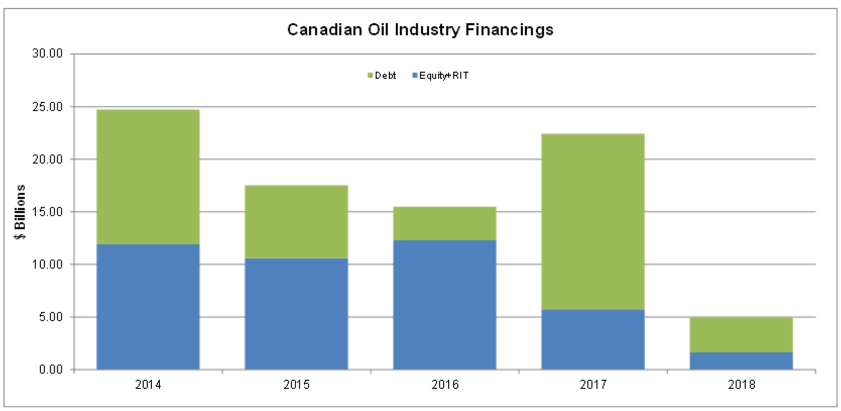
Wednesday, February 27, 2019, 6 AM MST

Print

The total amount of capital raised in the Canadian oil and natural gas industry in 2018 decreased 78 per cent from the previous year. In 2018, there was a total of $5.0 billion in capital raised, compared to $22.4 billion in 2017. Equity financings of $1.6 billion accounted for 33 per cent of the capital raised, with debt financings of $3.3 billion taking the balance. A similar weighting was seen in 2017, with 26 per cent coming from equity financings and 74 per cent from debt financings.

The decrease in capital raised in 2018 was due to the year-over-year decline in both the total amount of debt and equity financings. In 2018, the total value of debt financings decreased 80 per cent to $3.3 billion, down from $16.7 billion in 2017. During the same time period, the total value of equity financings dropped 71 per cent to $1.6 billion from $5.7 billion the year prior. Looking over the last five years, 2018 was the year with the lowest total amount of capital raised.



The debt category described herein is comprised of straight and convertible debt. There were 42 debt financings in 2018, down 47 per cent from the 79 in 2017. The majority of the debt issues in 2018 were straight debt, accounting for 99.6 per cent of the total debt issued. The amount of straight debt issues was $3.3 billion, down 80 per cent from the $16.6 billion in 2017. Convertible debt decreased 88% year-over-year to $14.0 million from $112.8 million in 2017.

In 2018, all of the top ten debt issues were straight debt, as was the case in 2017. In 2016, seven of the top ten debt issues were straight debt.

Harvest Operations Corp. completed two debt issuances in May for total proceeds of $811.5 million. The company issued $511.5 million in 4.2 per cent senior unsecured notes, maturing on June 1, 2023 as well as it entered into a five year term loan at a variable rate for an additional $300.0 million. The $511.5 million debt financing was the largest debt financing in 2018. These two debt financings accounted for about 24 per cent of the total debt raised throughout the year. Harvest used the proceeds to repay 2.125 per cent senior notes that had matured.

Frontera Energy Corp.'s debt issuance in June of approximately $465.6 million was the second-largest debt financing in 2018 and represents 14 per cent of the total debt raised in the year. The debt financing involved the company issuing 9.70 per cent senior unsecured notes due in 2023. The proceeds of the offering were used to finance its exploration and strategic initiatives in the latter half of 2018. Frontera has operations in Colombia and Peru.

Rounding out the largest debt financings in 2018 was **Canacol Energy Ltd.** The company issued approximately $411.2 million in senior unsecured notes in May on a seven year term with a coupon rate of 7.25 per cent per annum. Proceeds from this issuance were intended for the repayment of all of the company's outstanding amounts borrowed under its credit facility. Canacol has operations in Colombia.

Petroteq Energy Inc.'s $4.3 million financing in September was the largest convertible debt financing in 2018. **Strategic Oil & Gas Ltd.** had the second-largest convertible debt financing in 2018, raising $4.2 million in September. Rounding out the top three convertible debt financings in 2018 was another Petroteq convertible debt financing of $2.1 million in May.

The total amount of equity raised in 2018 was $1.6 billion, a 71 per cent decrease from the $5.7 billion in equity raised in 2017. The total number of equity issues dropped to 137 from 209, a 34 per cent decrease. The average size of the equity financings in 2018 decreased to $12.0 million from $27.4 million in 2017.

Included in the equity category is the $106.1 million in flow-through equity raised during 2018, a 27 per cent decrease from the $144.6 million in flow-through raised in 2017. In 2018 there were 14 flow-through equity issuances compared to 30 in 2017, a 53 per cent drop.

The largest equity financing in 2018 was **NuVista Energy Ltd.**'s $409.0 million financing in August. The company issued a total of approximately 47.4 million subscription receipts for gross proceeds of $384.0 million. At the same time, NuVista issued approximately 2.8 million flow-through common shares for gross proceeds of $25.0 million. The proceeds from the subscription receipt financing were used to partially finance the $625.0 million acquisition of assets from **Cenovus Energy Inc.**

The second-largest equity offering in 2018 was **Hammerhead Resources**' $300.0 million preferred share equity commitment in September, led by affiliates of the company's largest shareholder, **Riverstone Holdings LLC**. Proceeds from the offering were directed towards Hammerhead's capital expenditure program. Rounding out the top three equity financings was **Artis Exploration Ltd.**, which completed a $180.0 million private placement equity financing in May. Proceeds were used to fund its capital expenditure program.

There were no initial public offerings completed by exploration and production companies in the Canadian oil and natural gas industry in 2018 or 2017.

As we speculated last year, capital markets are expected to remain restricted and selective by primarily supporting larger, stronger oil-weighted public entities in 2019. There may be an increase in capital availability, should a change in government occur after the spring election in Alberta. In addition, the recent lift in oil prices may have helped trigger the debt capital markets, as debt financings have increased 137 per cent year-over-year in January. In January 2019 there was $386.7 million in total capital raised, comprised of $273.1 million in debt and $113.6 million in equity. This is significantly higher than the $253.7 million of total capital raised in January 2018, comprised of $115.1 million in debt and $138.6 million in equity.

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